

AUDIT REPORT & FINANCIAL STATEMENTS
OSAGE COUNTY RURAL WATER DISTRICT #5
YEAR ENDED JUNE 30, 2021

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OSAGE COUNTY RURAL WATER DISTRICT #5
JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Osage County Rural Water District #5

Report on the Financial Statements

I have audited the accompanying financial statements of Osage County Rural Water District #5, as of and for the fiscal year ended June 30, 2021, as listed in the table of contents and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

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circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Osage County Rural Water District #5, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 18, 2022, on my consideration of the Osage County Rural Water District #5's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of

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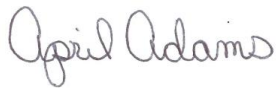
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internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Osage County Rural Water District #5's internal control over financial reporting and compliance.



April Adams CPA PLLC
Ponca City, Oklahoma

October 18, 2022

OSAGE COUNTY RURAL WATER DISTRICT #5
STATEMENT OF NET POSITION
JUNE 30, 2021

ASSETS**Current Assets:**

Cash and cash equivalents	\$ 78,039
Investments	52,425
Accounts receivable, Net of Allowance for Doubtful Accounts of \$3,000	11,637
Prepaid Insurance	2,175
Total Current Assets	<u>144,277</u>

Capital Assets:

Construction in progress	425,309
Water Distribution System	887,112
Office furniture & equipment	5,078
Less: Accumulated Depreciation	<u>(727,150)</u>
Total Capital Assets	<u>590,350</u>

Other Assets:

Meter deposits	<u>55</u>
Total Other Assets	<u>55</u>

TOTAL ASSETS**\$ 734,681****LIABILITIES & NET POSITION****Current Liabilities:**

Accounts Payable	\$ 6,770
Accrued Interest	502
Current Portion of Long-Term Debt	<u>29,091</u>
Total Current Liabilities	<u>36,363</u>

Long-Term Liabilities:

Notes Payable	283,671
Less: Current Portion of Long-Term Debt	<u>(29,091)</u>
Total Long-Term Debt	<u>254,580</u>

TOTAL LIABILITIES**290,943****NET POSITION:**

Net investment in capital assets	306,679
Restricted for debt service	-
Unrestricted	<u>137,059</u>

TOTAL NET POSITION**443,738****TOTAL LIABILITIES AND NET POSITION****\$ 734,681**

The accompanying notes are an integral part of the basic financial statements.

**OSAGE COUNTY RURAL WATER DISTRICT #5
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDING JUNE 30, 2021**

Operating Revenues:

Water sales	\$ 158,450
Penalties	3,454
Other income	-
Total Operating Revenues	<u>161,903</u>

Operating Expenses:

Water purchases	85,659
Contract labor	15,893
Dues and fees	773
Water tests and fees	4,548
Repairs and maintenance	26,282
Insurance	1,280
Professional fees	500
Office supplies and postage	1,789
Telephone and mobiles	1,751
Utilities	3,122
Depreciation Expense	20,729
Other expenses	1,095
Total Operating Expenses	<u>163,422</u>
Net Operating Income (Loss)	<u>(1,518)</u>

Non-operating Income (Expense):

Interest Income	896
Interest Expense	(12,635)
Capital improvement income	3,187
Membership Fees	6,150
Total Non-operating Income (Expense)	<u>(2,402)</u>

Change in Net Position	(3,921)
Total Net Position, Beginning of Year	<u>447,659</u>
Total Net Position, End of Year	<u><u>\$ 443,738</u></u>

The accompanying notes are an integral part of the basic financial statements.

**OSAGE COUNTY RURAL WATER DISTRICT #5
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDING JUNE 30, 2021**

Cash Flows from Operating Activities:

Cash Receipts from Customers	\$ 165,468
Payments to Suppliers for Goods & Services	(148,848)
Net Cash Provided (Used) by Operating Activities	<u>16,620</u>

Cash Flows from Capital & Related Financing Activities:

Additions to Capital Assets	(35,588)
Membership Fees	6,150
Capital improvement income	3,187
Loan proceeds	14,294
Principal paid on long-term debt	(16,329)
Interest paid on Debt	(12,698)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(40,984)</u>

Cash Flows from Investing Activities:

(Increase)Decrease Investment	(808)
Interest Income	896
Net Cash Provided (Used) by Investing Activities	<u>88</u>

Net Increase (Decrease) in Cash and Cash Equivalents	(24,276)
Cash & Cash Equivalents, Beginning of Year	<u>102,316</u>
Cash & Cash Equivalents, End of Year	<u><u>\$ 78,039</u></u>

Reconciliation of operating income (loss) to net cash provided**operating activities:**

Operating Income (Loss)	\$ (1,518)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation & Amortization	20,729
(Increase)Decrease in Accounts Receivable	3,565
(Increase)Decrease in Prepaid Insurance	(794)
Increase(Decrease) in Accounts Payable	(5,362)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 16,620</u></u>

The accompanying notes are an integral part of the basic financial statements.

OSAGE COUNTY RURAL WATER DISTRICT #5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Osage County Rural Water District #5 was incorporated under the Rural Water District Act, as amended, Title 82, Section 1301-1321 of the Oklahoma State Statutes. The purpose of the District is to acquire water and water rights; to build and acquire pipelines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owner and occupants of land located within the District, and others as authorized by the by-laws.

The District is governed by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

The more significant of the government's accounting policies are described below:

A. Reporting Entity:

Osage County Rural Water District #5 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges.

B. Measurement of Focus, Basis of Accounting and Basis of Presentation - Fund Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net position. The operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

C. Cash and Cash Equivalents:

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

OSAGE COUNTY RURAL WATER DISTRICT #5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

D. Accounts Receivable:

The accounts receivable at June 30, 2021 consists of amounts due from customers for water service, net of an allowance for doubtful accounts of \$3,000.

E. Property, Plant and Equipment:

The District records capital assets at historical cost or estimated fair value on the date of donation of donated capital assets. Depreciation is recorded over the estimated useful life of the capital asset using the straight-line method, with one-half year's depreciation in the year of acquisition.

F. Capitalization Policy:

Purchases of capital items in excess of \$500.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

G. Equity Classification:

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted - Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

OSAGE COUNTY RURAL WATER DISTRICT #5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

H. Revenues, Expenditures & Expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

I. Estimates:

The preparation of financial statements in conformity with accounting principles generally in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial Credit Risk

At June 30, 2021, the District held deposits of approximately \$130,464 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments,

OSAGE COUNTY RURAL WATER DISTRICT #5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

- or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
 - f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

Concentration of Investment Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District has the following of credit risk: 100% in certificate of deposit (\$52,425).

NOTE 3 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended June 30, 2021, was as follows:

	Balance at June 30, 2020	Additions	Deductions	Balance at June 30, 2021
Construction in progress	\$ 390,563	\$ 34,746	\$ -	\$ 425,309
Water distribution system	887,112	-	-	887,112
Office furniture & equipment	4,237	842	-	5,078
Subtotal	1,281,912	35,588	-	1,317,500
Less: Accum. Depr.	(706,421)	(20,729)	-	(727,150)
Total Capital Assets (Net of Depreciation)	\$ 575,491	\$ 14,859	\$ -	\$ 590,350

NOTE 4 - LONG-TERM DEBT

On October 29, 2019, the District entered into a Series A 2019 promissory note with American Heritage Bank for an original amount of \$300,000.00 to finance the completion of a water line extension to another water line for a second water supply. The District was required to make monthly interest payments beginning in November 2019. In November 2020, the District began monthly payments of principal and interest of \$3,381.79 at an interest rate of 4.75% until maturity of October 29, 2029. The revenues of the District are dedicated for payment of the debt services requirements of this loan prior to payment of any operation and maintenance expenses of the water system. At the date of this report, the District had borrowed up to \$300,000.00.

OSAGE COUNTY RURAL WATER DISTRICT #5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2021:

	Balance at June 30, 2020	Additions	Deductions	Balance at June 30, 2021
Note Payable - AHB	\$ 285,706	\$ 14,294	\$ (16,329)	\$ 283,671
Total Long-Term Debt	<u>\$ 285,706</u>	<u>\$ 14,294</u>	<u>\$ (16,329)</u>	<u>\$ 283,671</u>

Debt Services Requirements to Maturity

Year Ending June 30,	Principal	Interest	Total
2022	\$ 29,091	\$ 11,490	\$ 40,581
2023	30,352	10,230	40,581
2024	31,667	8,914	40,581
2025	33,040	7,542	40,581
2026	34,472	6,110	40,581
2027-2030	125,050	9,208	134,258
Total	<u>\$ 283,671</u>	<u>\$ 53,494</u>	<u>\$ 337,165</u>

NOTE 5 - CONTINGENCIES

Litigation

According to the District's management, there is no pending litigation.

Grant Involvement

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 6 - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are

OSAGE COUNTY RURAL WATER DISTRICT #5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

considered. There have been no significant reductions in insurance coverage during the year ended June 30, 2021.

NOTE 7 - ECONOMIC DEPENDENCE

Osage County Rural Water District #5 is dependent upon the City of Barnsdall, Oklahoma, and the Evergreen Rural Water District #18, Osage County, Oklahoma for the District's water supply. The District has entered into water purchase contracts with these entities. The District purchases water for resale to customers.

NOTE 8 - SUBSEQUENT EVENTS

The District did not have any subsequent events through October 18, 2022, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2021.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Osage County Rural Water District #5

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Osage County Rural Water District #5, as of and for the year ended June 30, 2021, and the related notes to the financial statements, and have issued my report thereon dated October 18, 2022. Management has omitted the MD&A required by accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Osage County Rural Water District #5's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Osage County Rural Water District #5's internal control. Accordingly, I do not express an opinion on the effectiveness of Osage County Rural Water District #5's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control

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that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control described in the accompanying Schedule of Findings as Items 21-01 that I consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Osage County Rural Water District #5's financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Osage County Rural Water District #5's Response to Findings

Osage County Rural Water District #5's response to the findings identified in my audit is described in the accompanying Schedule of Findings. Osage County Rural Water District #5's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's

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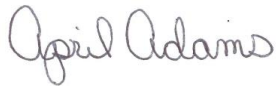
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internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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Ponca City, Oklahoma

October 18, 2022

OSAGE COUNTY RURAL WATER DISTRICT #5
SCHEDULE OF FINDINGS
JUNE 30, 2021

INTERNAL CONTROL FINDINGS:

Item 21-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the deficiency would exceed the benefits that be derived from it.

COMPLIANCE FINDINGS:

None